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FM AMEMBASSY RANGOON  
TO RUEHC/SECSTATE WASHDC 7981  
RUCNASE/ASEAN MEMBER COLLECTIVE  
RUEHGG/UN SECURITY COUNCIL COLLECTIVE  
RUEHBJ/AMEMBASSY BEIJING 1960  
RUEHBY/AMEMBASSY CANBERRA 1394  
RUEHKA/AMEMBASSY DHAKA 4943  
RUEHNE/AMEMBASSY NEW DELHI 4916  
RUEHUL/AMEMBASSY SEOUL 8478  
RUEHKO/AMEMBASSY TOKYO 6045  
RUEHCN/AMCONSUL CHENGDU 1537  
RUEHCHI/AMCONSUL CHIANG MAI 1732  
RUEHCI/AMCONSUL KOLKATA 0388  
RUEATRS/DEPT OF TREASURY WASHDC  
RHHMUNA/CDR USPACOM HONOLULU HI  
RUEHGV/USMISSION GENEVA 3937  
RHEHNSC/NSC WASHDC  
RUCNDT/USMISSION USUN NEW YORK 1899  
RUEKJCS/SECDEF WASHDC  
RUEHBS/USEU BRUSSELS  
RUEKJCS/JOINT STAFF WASHDC

UNCLAS SECTION 01 OF 04 RANGOON 000604

SENSITIVE  
SIPDIS

STATE FOR EAP/MLS, EEB/TPP/ABT/ATP - JANET SPECK  
BANGKOK FOR USDA/FAS, ECON OFFICE, USAID  
DEPT PLEASE PASS TO USAID - CHERYL JENNINGS  
PACOM FOR FPA  
TREASURY FOR OASIA: SCHUN

E.O. 12958:N/A  
TAGS: [EFIN](#) [EAGR](#) [EAID](#) [ETRD](#) [ECON](#) [PGOV](#) [PREL](#) [BM](#)  
SUBJECT: BURMA: GOVERNMENT BUDGET FUNDS SOES, MILITARY

REF: A) RANGOON 118 B) 07 RANGOON 549

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¶1. (SBU) Summary. The Burmese Government published its FY08-09 budget in late April, along with the FY07-08 supplementary expenditures figures. Once again, the GOB's budget data sheet provided only general guidelines, with little explanation of spending. The largest proportion of public funds as usual will go to State-owned Enterprises (SOEs) and the Ministry of Defense. Public spending on health and education remains the same as last year, totaling less than five percent of the total budget or 1.4 percent of GDP. Based on the figures, the GOB predicts a budget deficit of 415 billion kyat for FY08-09 (\$377 million), a 25 percent reduction from the projected FY07-08 budget deficit. However, adding in the budget supplemental, the FY07-08 budget deficit totaled more than 1.7 trillion kyat (\$1.4 billion). If past budgets are any indication, the FY08-09 budget deficit should be higher than targeted, despite limited GOB efforts to improve revenue collection.  
End Summary.

¶2. (SBU) The Burmese Government published its consolidated public sector budget in the Burma Gazette, a publication with limited distribution and readership, in late April after the Cabinet passed the State Budget Law for the new fiscal year. Burma's fiscal year runs from April 1-March 31. The official FY08-09 budget provides general guidelines and funding amounts, leaving out any explanation of how each agency will spend its money. Multiple exchange rates are used but not identified. Despite the lack of specific information, the budget gives an indication of GOB priorities.

Increasing Costs Despite Increasing Revenues  
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¶3. (SBU) According to the FY08-09 budget, the GOB's spending for

FY08-09 is expected to total 4.887 trillion kyat (\$4.1 billion at current market rates), up 30 percent from FY07-08's 3.736 trillion kyat budget (before the supplemental). The GOB's spending priorities remain the same as last year. State Owned Enterprises (SOEs) received more than 65 percent of the budget, with most operating at a deficit. "Government," which includes spending on government-related projects such as the construction of Nay Pyi Taw, and the Ministry of Defense received more than seven percent of the budget each, with "Government" receiving a 20 percent increase over last year's amount. GOB spending on health and education remained stagnant, at less than five percent of the total budget, or 1.4 percent of GDP.

FY08-09 Expenditures In Billion Kyat					
Recipient	FY07-08	FY07-08 w/supp.	FY08-09	% of Total	% of GDP
Total	3990	4938	4887	100.00	30.0
SOEs	2299	2834	3211	65.7	19.8
Government	201	762	361	7.4	2.2
Defense Min.	352	356	354	7.2	2.2
Finance Min.	121	135	182	3.7	1.1
Education Min.	169	171	167	3.4	1.0
Agriculture Min.	119	137	126	2.6	0.8
Electric Min.	72	107	101	2.1	0.7
Construction	101	103	88	1.8	0.5
Home Affairs	47	48	52	1.1	0.3
Health	44	45	44	0.9	0.3

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14. (SBU) The GOB projects revenues will total 4.472 trillion kyat (\$3.7 billion), a 41 percent increase from last year's figures. According to projections, the majority of revenues will be generated by SOEs, including oil and gas companies. Revenues contributions from SOEs and taxes are expected to account for 98 percent of total revenues, and should increase by 34, 70, and 40 percent respectively over last year's returns. The GOB also predicts that the Ministry of Defense will increase its revenues by 50 percent, the Ministry of Agriculture will bring in 22 percent higher revenues, and the Ministry of Finance will earn 40 percent more compared to last year.

FY08-09 Revenues In Billion Kyat				
Source	FY06-07	FY07-08	FY08-09	% of est. GDP
Total	2827	3178	4472	27.5
SOEs	1830	2086	2795	17.2
Cont. from SOEs	N/A	501	853	5.3
Taxes	425	530	740	4.6
Defense Min.	8	18	27	0.2
Agriculture Min.	9	9	11	0.1
Finance Min.	3	5	7	0.1
Construction Min.	3	6	7	0.1
Health	4	5	6	0.1

15. (SBU) During IMF Article IV consultations in September 2007, GOB officials pledged to reduce the budget deficit by increasing tax revenues and eliminating corruption. The GOB's FY08-09 projected deficit of 415 billion kyat (\$345 million) shows a 25 percent decrease from the FY07-08 budgeted deficit (before adding the budget supplemental). Since FY03-04, however, the Burmese Government has steadily increased its budget deficit, from 131 billion kyat in FY03-04 to 557 billion kyat in FY07-08.

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 FY08-09 Budget Deficit  
 In Billion Kyat  
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	FY06-07	FY07-08	FY08-09	% GDP
Total	-235	-558	-415	2.6

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Supplemental Appropriations Break the Bank  
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¶16. (SBU) Government revenue increased 12 percent in FY07-08, due primarily to high natural gas prices, increased gem and jade sales, and increased exports of timber, agriculture, and marine products. The FY07-08 supplementary appropriation added an additional 1.2 trillion kyat (approximately \$1 billion at current rates) to the budget, raising expenditures by more than 30 percent over projected totals. The GOB has yet to release revised figures for FY07-08 revenues, so based on available data, the FY07-08 budget deficit grew from 558 billion kyat (\$465 million) to 1.760 trillion kyat (\$1.4 billion) after adding supplemental budget appropriations.

¶17. (SBU) Like with previous years, "Government" received the largest allocation of additional money in FY07-08, 561 billion kyat

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(\$467 million) or an increase of 279 percent. Businessmen explained that the majority of this money was used to cover ongoing construction costs in Nay Pyi Taw, as well as other government infrastructure projects. SOEs received the second largest amount - 534.8 billion kyat (\$445 million), a 23 percent budget increase. The Ministry of Defense received an additional 4.3 billion kyat (\$3.5 million), the Ministry of Agriculture received 18 billion kyat (\$15 million), and the Ministry of Finance received 13.6 billion kyat (\$11.3 million).

Weak Revenue Generation  
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¶18. (SBU) During last year's IMF Article IV consultations, IMF representatives highlighted the need for the Burmese Government to improve its tax administration and modify its widespread discretionary tax exemptions. GOB officials stated that one of their goals was to reduce the budget deficit by addressing the main causes: weak revenue collection, losses from inefficient SOEs and SEEs, unrestrained government spending, and budget expenditures for non-productive uses, such as defense and construction. However, business contacts reported that the GOB did little to modify its tax structure in 2007, leading them to question the government's prediction of a 40 percent increase in tax revenues in FY08-09. Over the past few years, authorities have attempted to increase revenues through stricter enforcement of income taxation and through an informal Customs valuation rate hike from 450 kyat/\$1 to between 800 and 1200 kyat/\$1, depending on the product and its origin (Ref A). While the GOB privately argues that this rate hike indicates an effort to reconcile the various exchange rates, it instead complicates Burma's already complex informal exchange rate system.

¶19. (SBU) According to the FY08-09 budget data, most SOEs will operate at a loss, predicted to be roughly 450 billion kyat (\$375 million). State-Owned Enterprises registered a loss of 800 million kyat in FY07-08, substantially more than GOB estimates of 213 billion kyat. According to budget publications, SOEs lost 436 billion in FY06-07 and 549 billion in FY05-06. Business officials confided that the Myanmar Oil and Gas Enterprise (MOGE), which is responsible for coordinating oil and gas projects, exported more than \$2.5 billion in natural gas in FY07-08; the GOB reportedly earned at least \$1 billion from this sale.

¶10. (SBU) Corruption at all levels remains a problem in Burma, which affects the GOB's ability to collect revenue. While the government cracked down on crooked Customs officials in 2006, the payment of bribes on the borders continues, according to business contacts. Corruption is also rife in other GOB agencies, including

the Internal Revenue Department, Immigration, and the Yangon Central Development Committee.

Comment

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¶11. (SBU) While the published budget provides a general guideline of how the GOB will allocate its funds, senior leaders will likely continue spending money on pet projects with little oversight. Thus, it is impossible to obtain an accurate picture of Burma's fiscal situation. Despite the GOB's intentions to reduce the budget deficit, its history, unfettered spending, and the lack of tax reform make a growing deficit more likely. Burma's economic future remains bleak - priority spending for SOEs, military, and "Government" indicates that senior leaders are more concerned about their personal interests rather than developing infrastructure, education, or health programs that would benefit the Burmese people.

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Unless the Than Shwe regime begins to apply fiscal prudence (an unlikely scenario), inflation will continue to skyrocket and standards of living will fall, leaving the Burmese people to suffer the consequences of the regime's economic mismanagement.

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